BOU maintains CBR at 10%

By Samuel Sanya

The Bank of Uganda (BOU) has held the benchmark Central Bank Rate (CBR) at 10% as economic activity starts to pick up. The BOU governor, Prof. Emmanuel Tumusiime-Mutebile on Friday said the economy is set to grow faster at between 5% and 5.5% this financial year, as opposed to earlier estimates of 3.9%.

"The revised GDP growth forecasts suggest that the economy will improve further supported by the current accommodative monetary policy, recovery in external demand and Foreign Direct Investment (FDI), increased activity in the agricultural sector due to improved weather conditions, and the fiscal stimulus outlined in the national budget for the financial year 2017/18," Prof. Mutebile said.

He made the remarks at the BOU offices in Kampala.

"Given the fact that inflation is expected to remain around the medium-term target and that economic activity is picking up, with output approaching potential... BOU will therefore leave CBR unchanged," he explained.

BETWEEN THE LINES:

- **The improvement in the current account deficit was hastened by a robust improvement in exports by 18% to $3.17b in the 2016/17 financial year after being subdued at an average $2.7b for the past five years.**

Annual headline inflation declined to 5.7% in July from 6.4% the month before to improve the purchasing power of Ugandans. At the same time, Uganda's current deficit as a percentage of GDP (Gross Domestic Product) declined to 2.8% from 5% in the financial year 2015/16.

Mutebile noted that the improvement in the current account deficit was hastened by a robust improvement in exports by 18% to $3.17b (about sh11.4 trillion) in the 2016/17 financial year after being subdued at an average $2.7b (sh9.7 trillion) for the past five years.

Dr Adam Mugume, the executive director for supervision at BOU, said the improvement in exports was driven by a leap in the value of coffee exports as well as larger volumes of 4.2 million bags exported, up from 3.5 million bags.

"We have not seen any effect of the Kenyan elections on the economy. The first effect would have been through the exchange rate which is stable. We are optimistic that the monetary easing at the start of the year will filter through to create economic growth," Mugume said, noting that Uganda enjoyed a balance of payments surplus of $438m (about sh1.6 trillion) at the end of the 2016/17 financial year.

Despite the improved economic conditions the central bank's documents show that weighted average lending rates edged-up slightly to 21.1% in June 2017 from 20.5% in April 2017. Mugume said banks are reluctant to lend due to relatively high ratio of non-performing loans estimated at about 6.2% of all issued loans.

Shilling stable

The shilling held firm supported by tepid demand from market players. Most traders remained short on dollars while keeping an eye on political developments in Kenya and also looking out for a signal from the policy meeting that was expected later in the week, according to a report by Alpha Capital Partners boss,Stephen Kaboyo.

Trading was in the range of 3590/3610. In the interbank money market, overnight funds traded at 7% while one week money was at 10%.

In the fixed income market, BOU conducted bond auctions with 80 billion on offer for a three-year bond and sh120b for a 10 year bond. Coupons were 13.250% and 16.000% while weighted yields came at 13.244% and 14.919% respectively. Both tenors were oversubscribed.

In international currency markets, the dollar was on the back foot as other major currencies remained bullish amid political tensions between the US and North Korea.

"Forecasts indicates that the shilling will remain flat on account of weak demand, very typical of mid-month market trend where key market players will be settling mid-month tax obligations," Kaboyo said.

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